

**SOUTH CAROLINA
DEPARTMENT OF NATURAL RESOURCES**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2018



Independent Accountant's Report on Applying Agreed-Upon Procedures

September 26, 2019

Mr. Robert H. Boyles, Jr., Interim Director
and
Members of the Natural Resources Board
South Carolina Department of Natural Resources
Columbia, South Carolina

We have performed the procedures described in Attachment 1, which were agreed to by the management of the South Carolina Department of Natural Resources (the Department), on the systems, processes and behaviors related to financial activity of the Department for the fiscal year ended June 30, 2018. The Department's management is responsible for the systems, processes and behaviors related to financial activity. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment 1 either for the purpose for which the agreed-upon procedures report has been requested or for any other purpose.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be an opinion or conclusion, respectively, on the systems, processes and behaviors related to financial activity of the Department. Accordingly, we do not express an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The concept of materiality does not apply to findings to be reported in an agreed-upon procedures engagement. Therefore, all findings from the application of the agreed-upon procedures must be reported unless the definition of materiality is agreed to by the specified parties. Management of the Department has agreed that the following deficiencies will not be included in the State Auditor's Report on Applying Agreed-Upon Procedures:

- Errors of less than \$1,000 related to cash receipts and non-payroll cash disbursements transactions.
- Errors of less than \$1,000 related to reporting packages.

This report is intended solely for the information and use of the governing body and management of the South Carolina Department of Natural Resources and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

George L. Kennedy, III, CPA
State Auditor

South Carolina Office of the State Auditor
Agreed - Upon Procedures Related to the South Carolina Department of Natural Resources (P24)
Cash Receipts/Revenues

1. Compare current year revenues at the subfund and account level from sources other than State General Fund appropriations to those of the prior year. Obtain from management an understanding of variations for the following general ledger accounts:

Earmarked Fund		Restricted Fund	
Federal Operating Grant-Restricted	4280020000	Hunting/Fishing License/Permit	4120170000
Other Capital Grants-Restricted	4300030000	Annual Non-Resident Fishing License	4120170002
General Operating Contributions & Donations-Restricted	4310030000	Non-Resident Hunting License	4120170005
General Capital Contributions & Donations-Restricted	4310060000	Individual Deer Tag	4120170029
Vessel Charges	4470150000	Court Fine	4220010000
General Fund Appropriation Revenue Transfer	4890060000	Fees & Receipts - Other	4310010000
Allocation from State Agencies	4890080000	Rent-State Owned Property	4470040000

2. Haphazardly select fifteen cash receipt transactions and inspect supporting documentation to:
 - Ensure the transaction amount, date, payor, and account classification are properly reported in the general ledger.
 - Determine that receipts were deposited in a timely manner, in accordance with Proviso 117.1 of the Appropriation Act.
 - Ensure that both revenue collections and amounts charged are properly authorized by law.
 - Determine that receipts were recorded in the proper fiscal year.

Findings:

During our inspection of variance explanations provided by management, we observed the following:

- Vessel Charges (4470150000): Revenue earned in May and June 2018 totaling \$254,750 was improperly posted in fiscal year 2019 as a result of late invoicing. In addition, the revenue was not reported on the Other Receivables Reporting Package.
- Hunting/Fishing License/Permit (4120170000): License fees collected by a third-party contractor on behalf of another state were improperly remitted to the Department three times; however, the Department only made one correcting adjustment. As a result, unearned license fees of \$481,433 were retained by the Department in fiscal year 2018.

During our inspection of cash receipts we observed the date of receipt was not properly documented for one receipt totaling \$3,723. As a result, we were unable to determine if the receipt was deposited in a timely manner in accordance with State law. A similar finding was observed in the fiscal year 2017 State Auditor's Report.

Cash Receipts/Revenues (Continued)

Management's Response:

The Department concurs with these findings:

- The late invoicing of the vessel charges was due to an unexpected shortage of staff in that area. We will work to ensure that revenue is posted to the correct fiscal year and/or included on the appropriate reporting package(s) in the future.
- The Department attempted to return the unearned license fees; however, they were sent again. Rather than return the funds multiple other times the Department retained the funds and netted future receivables against that balance. This process has since been updated to prevent any such situations in the future.
- The one receipt for which the date of receipt was not documented was due to employee oversight. Employees that receive monies have been reminded of the importance of documenting the receipt date to prevent such errors in the future.

Cash Disbursements/Non-Payroll Expenditures

3. Compare current year non-payroll expenditures at the subfund and account level to those of the prior year. Obtain from management an understanding of variations for the following account series:

General Fund		Earmarked Fund		Restricted Fund		Federal Fund	
Contractual Services	502-	Supplies and Materials	503-	Contractual Services	502-	Contractual Services	502-
Supplies and Materials	503-	Allocations	517-	Supplies and Materials	503-	Allocations	517-
				Interest	508-		

4. Haphazardly select fifteen non-payroll disbursements and inspect supporting documentation to determine:
- The transaction is properly completed as required by Department procedures; invoice(s) agree(s) with general ledger as to vendor, amount, and date.
 - All supporting documents and approvals required by Department procedures are present and agree with the invoice.
 - The transaction is a bona fide expenditure of the Department.
 - The transaction is properly classified in the general ledger.
 - The disbursement complied with applicable State laws, rules, and regulations including the State Consolidated Procurement Code, state travel regulations etc.
 - The disbursements were recorded in the proper fiscal year.
 - Clerical accuracy / confirm proper sales/use tax.

For federally funded cash disbursements/non-payroll expenditures, inspect supporting documentation to determine:

- Charges are necessary and reasonable for the proper administration of the program, incurred during the approved grant period, given consistent accounting treatment and applied uniformly to both federally assisted and other activities of the recipient.
5. Haphazardly select fifteen purchasing card transactions from the Office of the State Comptroller General's (CG) listing of purchasing card transactions for fiscal year 2018 and inspect supporting documentation to determine:
- The cardholder is an authorized user and individual credit limits have been properly approved in accordance with Department policies.
 - The purchase is authorized based on the cardholder's job title/position.
 - The monthly purchase summary was submitted along with applicable receipts and signed by both the supervisor and cardholder.
 - The purchase did not exceed the single transaction limit or the individual credit limit and there was no indication of transaction splitting.

Cash Disbursements/Non-Payroll Expenditures (Continued)

Findings:

One selected disbursement was not paid within thirty days from receipt of proper invoice in accordance with South Carolina Code of Laws Section 11-35-45. The invoice was received in August 2017 but was not paid until November 2017.

During our inspection of purchasing card transactions we noted the following:

- The Department could not provide documentation to support one purchasing card user's individual monthly credit limit. As a result, we were unable to determine whether the limit was approved in accordance with the Department's policies.
- Two selected purchasing card transactions did not comply with the documentation requirements prescribed by the South Carolina Purchasing Card Policy and Procedures Manual. A monthly purchase summary was not maintained to support one purchase and the associated monthly purchase summary for another purchase did not include required certification and approval signatures from the cardholder and supervisor. A similar finding was observed in the fiscal year 2017 State Auditor's Report.
- One selected purchasing card transaction totaling \$3,495 was split into two consecutive transactions in order to accommodate the single transaction limit of \$2,500, which is prohibited by the South Carolina Purchasing Card Policy and Procedures Manual.

Management's Response:

The Department concurs with these findings:

- The delay in the payment of the invoice was because of oversight due to several employees in the finance department retiring or terminating around the same time. The finance staff is now fully staffed which should help avoid errors of this nature in the future.
- The Department is in the process of updating the purchasing card manual and implementing new procedures which will help ensure proper documentation of purchasing card limits and purchase approvals. In addition, monthly internal audits of procurement cards have resumed as of February 2019 which will help catch errors quickly and educate employees on the regulations and procedures related to purchasing cards.

Payroll

6. Compute the percentage distribution of fringe benefit expenditures by fund source and compare to the actual distribution of recorded personal service expenditures by fund source. Obtain an explanation of variations greater than 10%.
7. Compare the percentage change in personal service expenditures between the current year and prior year to the percentage change in employer contributions expenditures between the current year and prior year. Obtain an explanation of changes greater than 10%.
8. Haphazardly select fifteen employees that received overtime pay during the fiscal year and inspect supporting documentation associated with one paycheck to determine:
 - The employee was eligible for overtime pay.
 - The annual salary and/or hourly pay rate was approved and properly documented in the employee's payroll and/or personnel file.
 - Overtime hours were approved and supported by the South Carolina Enterprise Information System (SCEIS) Display Working Times report or a timesheet.
 - Gross pay was properly calculated.

Payroll (Continued)

9. Haphazardly select fifteen employees who terminated employment during the fiscal year to determine if they were removed from the payroll in accordance with the Department's policies and procedures, that the employee's last pay check was properly calculated and that the employee's leave payout was properly calculated in accordance with applicable State law.
10. Haphazardly select ten employees hired during the fiscal year to determine if they were added to the payroll in accordance with the Department's policies and procedures and that their first pay check was properly calculated in accordance with applicable State law.
11. Haphazardly select three bonus pay disbursements to determine:
 - The employee did not make more than \$100,000 annually.
 - Bonuses received during the year did not exceed \$3,000.
 - The payment agreed to supporting documentation.
 - The bonus was approved by the appropriate supervisor.

Finding:

We identified three employees that were not removed from the payroll system in a timely manner after their termination dates. The Department's policy specifies all actions need to be keyed in the system in the next pay period; however, the lapse between termination and removal from the system ranged between two and twelve months for these employees. As a result of the lag, one employee ultimately received two additional paychecks totaling \$17 after termination date. A similar finding was observed in the fiscal year 2017 State Auditor's Report.

Management's Response:

The Department concurs with this finding. There have been multiple staff changes within the human resources department since these errors occurred so the exact cause of these errors could not be determined. We will continue to educate supervisors on the proper way to complete the Personnel Transaction Request to avoid errors of this nature in the future.

Journal Entries and Transfers

12. Haphazardly select ten journal entries and ten transfers for the fiscal year to:
 - Trace postings to the general ledger, confirming amounts agree with supporting documentation.
 - Confirm transaction is properly approved.
 - Inspect supporting documentation to confirm the purpose of the transaction.

Finding:

One selected journal entry to correct the fund coding of a prior year entry was not properly recorded. The Department attempted to correct the error by crediting the expenditure account associated with the prior year entry. However, as prior year expenditures were already closed out, an alternative transaction should have been utilized in order to avoid an impact on budget or expenditures.

Management's Response:

The Department concurs with this finding. This was an employee oversight. The employee that is responsible for making journal entries has been advised of how this type of entry should be handled in the future.

Reporting Packages

13. Obtain copies of fiscal year end reporting packages submitted to the CG. Inspect the Master Reporting Package Checklist to determine the appropriate reporting packages were prepared and submitted by the due date established by the CG's Reporting Policies and Procedures Manual.

14. In addition to the procedure above, perform the following:

- Cash and Investments Reporting Package

Determine if responses are reasonable/accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Rptg - Cash and Investments report and/or Department prepared records. In addition, determine if amounts agree to State Treasurer's Office Composite Bank Account reports and year end reconciliations. Further, determine if the Department's petty cash accounts were properly authorized by the Office of the State Auditor.

- Other Receivables Reporting Package

Determine if reported amounts are accurate based on inspection of the SCEIS general ledger, the SCEIS Yearend Rptg - Accounts Receivable Current with Customer report and/or Department prepared records. In addition, haphazardly select five receivables to determine if the amounts were properly classified, calculated, and reported.

- Unearned Revenue Reporting Package

Determine if reported amounts are accurate based on inspection of the SCEIS general ledger and/or Department prepared records.

- Inventory Reporting Package

Determine if reported amounts agree to the SCEIS Yearend Rptg - Inventory report. In addition, determine if the Department's reconciliation of physical inventory to SCEIS was properly completed by agreeing amounts to the SCEIS general ledger and/or Department prepared records. Further, determine if the Department notified the Office of the State Auditor of its inventory dates.

- Operating Leases Reporting Package

Based on inspection of invoices, lease agreements and/or Department prepared records, determine if the future rental payments to be received for property leased to others were properly reported.

- Subsequent Events Questionnaire

Determine if responses are reasonable/accurate and any required supplemental information was properly prepared and submitted based on inspection of the SCEIS general ledger and/or Department prepared records. In addition, haphazardly select five payables from the Subsequent Events Accounts Payable Worksheet and determine if the amounts were properly classified, calculated and reported and excluded from the original Accounts Payable Reporting Package submission.

Reporting Packages (Continued)

Findings:

Timely Reporting – The Department submitted one reporting package one business day after the CG's established due date.

Other Receivables Reporting Package – See finding at **Cash Receipts/Revenues**.

Inventory Reporting Package – The Department did not notify the Office of the State Auditor of its fiscal year 2018 inventory count dates in accordance with the CG's Reporting Policies and Procedures Manual.

Operating Leases Reporting Package – The fiscal year 2022 future rental payment to be received was overstated by \$14,425 on the Operating Leases Summary Form – Lessor. Per the associated lease agreement, the payment increased in January 2022; however, the increase was improperly applied to the entire fiscal year in the Department's calculation.

Subsequent Events Questionnaire – Three accounts payable transactions were incorrectly reported on the Subsequent Events Accounts Payable Worksheet. Two payables totaling \$18,500 were improperly classified as intergovernmental payables but should have been classified as vendor payables. In addition, the Department did not assess use tax on one additional payable, which resulted in an understatement of \$4,328.

Management's Response:

The Department concurs with these findings:

- The reporting package that was submitted late was due to Hurricane Matthew. The Department (along with other state offices) was closed 9/12/18-9/14/18. Therefore, three business days leading up to the original due date of 9/14/18 were lost. The Department reopened 9/17/18 and submitted the package by the close of business 9/19/18 which was the third business day that state offices in Richland county were reopened.
- We have advised our staff that handles the reporting packages how each of these situations should be handled in the future to ensure proper reporting.

Composite Reservoir Accounts

15. Obtain a listing of composite reservoir accounts and confirm with Department management that the listing is complete.
16. Inspect the year-end reconciliation for each composite reservoir account and perform the following procedures:
 - Determine that selected reconciliations were timely performed, reviewed, and properly documented in accordance with State regulations, and are mathematically correct.
 - Agree applicable amounts from reconciliations to the general ledger.
 - Agree applicable amounts from reconciliations to the State Treasurer's Office monthly reports.
 - Determine if reconciling differences were adequately explained and properly resolved.
 - Determine if necessary adjusting entries were made in the accounting records.
17. Haphazardly select and inspect five composite reservoir account receipts to determine that they were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations and that they were recorded in the proper fiscal year, and that any retention or remittance of revenue is supported by law.

Composite Reservoir Accounts (Continued)

18. Haphazardly select and inspect five composite reservoir account disbursements to determine if these disbursements were properly described and classified in the accounting records in accordance with the Department's policies and procedures and State regulations, were bona fide disbursements of the Department, were paid in conformity with State laws and regulations and that goods and/or services were procured in accordance with applicable laws and regulations.

We found no exceptions as a result of these procedures.

Capital Assets

19. Haphazardly select fifteen capital asset acquisitions and inspect supporting documentation, the SCEIS general ledger and the SCEIS Asset History Sheet to determine that each asset was properly capitalized and posted to the general ledger as to amount and account and assigned the proper useful life in accordance with the CG's Reporting Policies and Procedures Manual.
20. Haphazardly select five capital asset retirements and inspect supporting documentation, and the SCEIS Asset History Sheet, to determine that each asset was approved for removal, and proper documentation supports the retirement in accordance with the CG's Reporting Policies and Procedures Manual.
21. Haphazardly select ten capital assets from the SCEIS Asset History Sheet and confirm their existence through physical observation and/or identification of the assets on the Department's fiscal year 2018 asset inventory.

Finding:

Two selected capital asset acquisitions were capitalized for the incorrect amount due to the improper exclusion of use tax or the inclusion of charges applicable to another capital asset. As a result of the errors, one asset was understated by \$8,144 and the second asset was overstated by \$3,990. We observed a similar finding in the fiscal year 2017 State Auditor's Report.

Management's Response:

The Department concurs with these findings. Both errors were due to employee oversight, and asset staff has been advised on how to properly handle capital asset acquisitions going forward to avoid errors of this nature.

Repairs and Maintenance

22. Haphazardly select ten disbursements recorded in repairs/maintenance general ledger accounts (502146- and 502147- account series) to determine if the costs were properly expensed rather than capitalized.

We found no exceptions as a result of this procedure.

Permanent Improvement Activities

23. Haphazardly select three ending balances from Asset Under Construction (AUC) asset classes (1300-) and inquire with management to determine:
 - The asset under construction was for a project that was properly approved by the Joint Bond Review Committee / State Fiscal Accountability Authority.
 - The associated project was accurately included and reported on the South Carolina Comprehensive Permanent Improvement Plan.
 - The progress and status of the asset under construction at year-end and whether the project was ongoing or substantially complete.
 - The financial activity for the asset under construction was properly tracked and recorded in SCEIS.

Permanent Improvement Activities (Continued)

24. Inspect the Department's portion of the Summary of Permanent Improvement Projects from the South Carolina 2017 Comprehensive Permanent Improvement Plan. Through inquiry, document the status of each project to determine if the plan is an accurate representation of the Department's activities.

Finding:

Based on inspection of supporting documentation and inquiry with management, we determined a permanent improvement project totaling \$961,429 was completed before the end of fiscal year 2018 but was still classified in SCEIS as an AUC. Since the project was complete, it should have been reclassified from AUC to the appropriate capital asset category.

Management's Response:

The Department concurs with this finding. This was due to employee oversight and staff has been advised on how to properly handle these situations to avoid such errors in the future.

Travel Advances

25. Haphazardly select three travel advances and inspect supporting documentation to determine:
- Proper approval was obtained from the CG for advances associated with in-state travel.
 - The advance request was submitted to the CG no later than seven business days prior to the beginning of the trip.
 - The advance was not made for more than 80% of estimated travel expenses or made in instances where 80% of estimated travel expenses was less than \$250.
 - The Department maintained adequate records to support the advance.
 - The employee repaid the advance within thirty days after the end of the trip.

Finding:

One selected travel advance for \$2,458 was not repaid within thirty days after the end of the trip.

Management's Response:

The Department concurs with this finding. We will work to ensure that any travel advances that require repayment in the future are repaid within 30 days of the end of the trip.

State Fuel Credit Cards

26. Haphazardly select five gas card purchases and inspect supporting documentation to determine if the purchases were allowable in accordance with Department policy.

Finding:

The Department could not provide support for two selected gas card purchases. As a result, we were unable to determine if the purchases were allowable in accordance with Department policy.

Management's Response:

The Department concurs with this finding. This was due to employee oversight and staff has been reminded of the importance of retaining gas receipts for documentation purposes.

Reconciliation of VOLT System to SCEIS

27. Obtain one haphazardly selected monthly reconciliation of the Department's online customer service portal (VOLT) to SCEIS and determine if it was performed timely and properly documented and if reconciling differences were adequately explained and properly resolved.

Finding:

According to management, the Department reconciles VOLT to SCEIS on a deposit basis rather than a monthly basis. Therefore, we were provided with all the reconciled deposits associated with one selected month (May 2018). As a result of this inspection, we observed one reconciling item totaling \$60 was not properly identified and resolved by the Department. Although the initial SCEIS deposit occurred, the subsequent journal entry to reallocate the deposit to the proper program areas, which is a required part of the Department's reconciliation process, was not recorded.

Management's Response:

The Department concurs with this finding. This was due to employee oversight and staff will work to ensure that all future reconciling items are resolved and that deposits are allocated to the proper program areas.

Appropriation Act

28. Inspect the Appropriation Act work program, provided to and completed by management, confirming areas of noncompliance, if any.
29. Confirm compliance with the selected agreed-upon Department-specific state provisos by inquiring with management and observing supporting documentation, where applicable.

We found no exceptions as a result of these procedures.

Minutes

30. Inspect the Natural Resources Board's approved minutes beginning with the end date of prior year fieldwork through the end of our current year fieldwork.

We found no other matters related to our agreed-upon procedures.

Status of Prior Findings

31. Through inquiry and inspection, determine if the Department has taken appropriate corrective action on the findings reported during the prior year engagement before the end of fiscal year 2018. For instances where corrective action was not implemented prior to year-end, document the current status of the Department's corrective action.

Observations

Per discussion with management and through inspection and observation, we determined four prior year findings were corrected before the end of fiscal year 2018: (1) Proviso Compliance; (2) Operating Leases Reporting Package; (3) Subsequent Events Questionnaire; and (4) Composite Reservoir Account Reconciliations. We also identified two prior year findings still existed at year-end: (1) Surety Bond Approval and (2) Revenue Retention Policy. These issues were not corrected prior to year-end because the timing of the prior engagement did not allow adequate time to correct the issues. However, we observed the Department has implemented corrective measures for each of these findings. Further, we identified four similar findings related to (1) Receipt Date; (2) Purchasing Card Documentation; (3) Pay Calculation; and (4) Asset Capitalization that will be repeated. See findings at **Cash Receipts/Revenues, Payroll, Cash Disbursements/Non-Payroll Expenditures, and Capital Assets**.